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UNITED NATIONS DEVELOPMENT PROGRAMME

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ENGLISH

APPROVAL OF UNCDF ASSISTANCE TO A PROJECT OF VIETNAM

(VIE/90/C05) - Industrial Credit Facility in Quangnam - Danang Province
IPF: (1992-96) $92 774 000

Date of approval by the AC: 1/	3 June 1992
Expected duration:	2 years
Proposed executing agency:	UNDP/OPS
Government executing agency:	Danang Province People's Committee
Proposed UNCDF budget:	$3 706 500 Source of funds: General Resources

Project background

The above-mentioned project is an integral part of the UNCDF-funded investment programme for the development of the Quang-Nam Danang Province: a food-deficit region with a number of viable industrial enterprises with no access to foreign exchange for importing machinery and spare parts in order to increase production. Three other approved and already operational projects in the programme are for the improvement of power supply, road networks and irrigation system.

The programme is managed by a Project Implementation Unit (PIU) jointly funded by UNDP and UNCDF under a separate project (VIE/90/C09) and implemented by OPS. The PIU operates within a decentralized and local Government framework, namely The Provincial People's Committee of the Quang-Nam Danang Province. As lack of foreign exchange is a major obstacle to the expansion and modernization of small and medium-scale manufacturing enterprises in Vietnam, the Government seeks to increase rural industrial production, reduce underemployment by creating new jobs, and improve product quality in a number of private and public enterprises.

Description of project

The project will provide medium-term loans (no longer than six years) in foreign exchange at a fixed interest rate of six percent per annum, to private, state and non-state cooperatives, local government-owned) industrial enterprises producing consumer goods, textiles, fisheries and agro-based products in the Province of Quang-Nam Danang, for the purpose of importing machinery, equipment and spare parts. It is expected that a large portion of the loans will be granted to the recently emerging private sector enterprises. Following an agreement reached with the Government, it has been decided that a minimum of 30 percent of the Facility will be reserved exclusively for private enterprises.

1/ This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.

A local bank in Danang, the Bank for Foreign Trade of Vietnam (BFTV) has been selected in order to assess creditworthiness of borrowers and manage loan operations. The BFTV was chosen by the project because of its relatively long and proven experience in handling foreign exchange transactions, particularly processing letters of credit. The project will establish an International Credit Office (ICO) within the Danang branch of the BFTV for the duration of the Project; and staff of ICO will be selected from the BFTV staff and the ICO will be under the joint supervision of the PIU and BFVT management. The ICO will receive technical assistance in form of one international expert in Banking to help its staff in credit analysis and loan accounting aspects of the project. The PIU will also be strengthened by the services of a consultant in industrial development and one national consultant to help identify potential borrowers and help candidate borrowers in preparing feasibility studies, selecting appropriate technology and suppliers.

Interest on the loan will be paid in local currency and will be credited to an Interest Income Account held at BFTV/Danang. The account will be used to finance the operating expenditure of ICO, and the balance of the fund will be used as income for BFTV and as reserve for loan payment default or delays. The principal repayments on the loans will be deposited in a Counterpart Fund Account in local currency at the exchange rate of the date of repayment as quoted by the BFTV or in foreign exchange if the borrower is an exporter. In order to maintain original value of the fund, the Bank is responsible for converting the local currency into dollars. The use of this Fund will be under joint authority of the Provincial People's Committee (PPC) and the PIU. The Counterpart Fund will be used to finance on a grant or loan basis, future generation of small-scale basic needs infrastructure projects. for example, schools, health centers, etc. in selected communes within the Dai Loc District where UNCDF is developing its infrastructure programme in irrigation, power supply and transport. The methodology for selection, design and implementation of the rural infrastructure projects will be developed with funding provided under the project VIE/90/C09.

Inputs

UNCDF will finance the costs of an international expert in banking (12 man-months), a consultant in industrial development (nine man-months) and a national finance consultant (one man-months); office equipment for ICO and PIU, a vehicle and a study tour abroad for selected staff of ICO in commercial banking; and miscellaneous costs.

Financial data

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International experts	210 000
Formulation, Monitoring and Evaluation	191 000
National finance consultant	4 500
Annual audits	45 000
Study tours	12 000
Office equipment	32 000
Vehicles	25 000
Industrial Credit Facility	3 000 000
Contingencies	65 000
Support costs (OPS & UNCDF)	122 000
Total	3 706 500

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